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ANNUAL REPORT

OF

MARSHALL FIELD & COMPANY

AND SUBSIDIARIES

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YEAR ENDED DECEMBER 31, 1936

ANNUAL REPORT

OF

MARSHALL FIELD & COMPANY

AND SUBSIDIARIES

YEAR ENDED
DECEMBER 31, 1936

TO BE SUBMITTED TO STOCKHOLDERS AT
THE ANNUAL MEETING TO BE HELD IN
CHICAGO, ILLINOIS, TUESDAY, MARCH 9, 1937

CHICAGO, ILLINOIS, U. S. A.

MARSHALL FIELD & COMPANY

BOARD OF DIRECTORS

FREDERICK D. CORLEY
MARSHALL FIELD
STANLEY FIELD
JOHN McKINLAY
JAMES O. McKINSEY
CHARLES H. SCHWEPPE
JAMES SIMPSON
JAMES SIMPSON, JR.
JOHN P. WILSON

OFFICERS

JAMES O. McKINSEY.....*Chairman*
FREDERICK D. CORLEY.....*President*
CHARLES C. BUNKER.....*Vice-President*
JAMES P. MARGESON, JR.....*Vice-President*
HUGHSTON M. McBAIN.....*Vice-President*
GEORGE W. YOUNG.....*Vice-President*
ERNEST L. OLRICH.....*Secretary-Comptroller*
HORACE O. WETMORE.....*Treasurer*
KENNETH E. ARMSTRONG.....*Assistant Comptroller*
RALPH H. PIERCE.....*Assistant Secretary*
AUSTIN T. GRAVES.....*Assistant Treasurer*

TO OUR STOCKHOLDERS

CLASSIFICATION OF ACTIVITIES

The activities of the Company are organized into the following major administrative units:

1. Retail Division.
2. Manufacturing Division.
3. Real Estate Division.
4. Corporate Office.

RETAIL DIVISION

The Retail Division consists of the following:

1. Main Store on State Street, Chicago.
2. Suburban stores located in Evanston, Oak Park and Lake Forest, Illinois.
3. Buying offices in New York City.
4. Foreign offices with headquarters in London.
5. Frederick & Nelson at Seattle, Washington.
6. Three small stores, not operated under our name, located at —
   (a) Chicago Heights, Illinois.
   (b) Alliance, Ohio.
   (c) Watertown, South Dakota.

   These three stores are the remaining units of fifteen small stores formerly owned.

During the year we disposed of the following units of this division:

1. The Davis Store located on State Street, Chicago.
2. Two small stores located at —
   (a) Newark, Ohio.
   (b) 63rd Street and Kimbark Avenue, Chicago.

The major events in this division during the year were the following:

1. We made some significant changes in sales and personnel policies.
2. We made some changes in the organization of the main store primarily for the purpose of decentralizing supervision and reducing the details handled in the central office. We also made some changes in personnel which were necessitated in part by the changes in organization.
3. We made substantial improvements in the facilities of the store, including the following:
   (a) Installation of new escalators in the North Wabash Building, and new elevators in the South State Street Building.
   (b) Modernization of the facilities in the south half of the fifth floor.
   (c) Installation of a new distribution system in the Main Garage.
   (d) Procurement of new equipment for local delivery fleet.
   (e) Installation of heat control system in the North State Street section.
   (f) Remodeling of stationery and engraving section.
   (g) Establishment of photographic studio on the third floor.

(h) Construction adjacent to Evanston Store of a service station with parking lot on roof.

We made many other improvements in facilities of lesser importance.

We are continuing our plan of modernization of facilities.

4. We made an intensive study of the Oak Park and Evanston Stores which resulted in a decision to make some modifications in organization, layout and methods at these units.
5. We reorganized the Buying Offices in New York City and placed these under the supervision of a new manager, who is a Vice-President of the company.
6. We reorganized the Foreign Offices and reduced substantially their operating costs.

The earnings of the Retail Division for the past two years have been as follows:

1935.....$3,426,861
1936.....$4,836,738

MANUFACTURING DIVISION

During the past year this division has been engaged in—

1. Completing the liquidation of the former Wholesale Division.
2. Developing a new business.

The major events involved in this process have been the following:

1. Completing the sale of the inventories of discontinued lines, which was begun in the last quarter of 1935. The sales of these products during the year amounted to approximately $1,200,000.
2. Disposal of plants and workshops which were not suitable to our new program. We have disposed of the following:

Mills	*Products Manufactured*
High Point Silk Mill	Silk
Lakeside Mills	Shirts, etc.
Thread Mills	Threads, etc.
Paul Sargent	Dresses
Stanford-Williams	Men's Suits
Factory 422-A	Pewter ware
Factory 439	Men's ties
Factory 440	Toilet preparations, Perfumes
Factory 448	Furniture and Mattresses
Factories 456-457	Comforters, batts, pillows

We now have the following plants:

Woolen Mill.....Spray, N. C.
Blanket Mill.....Draper, N. C.
Finishing Mill.....Spray, N. C.

Sheeting Mill	Draper, N. C.
Bleachery	Spray, N. C.
Bedspread Mill	Leaksville, N. C.
Towel Mill	Fieldale, Va.
Silk Mill	Spray, N. C.
Suiting Mill	Spray, N. C.
Rug Mill	Leaksville, N. C.
Pile Fabrics Mill	Leaksville, N. C.
Lace Curtain Mill	Zion, Ill.
Hosiery Mill	Fieldale, Va.
Knitwear Mill	Pawtucket, R. I.
Knitwear Mill	Roanoke, Va.
Lingerie Mill	Zion, Ill.
Lingerie Mill	Manila, P. I.
Lingerie Mill	Roanoke, Va.
Linen and Handkerchief Mill	Mayaguez, P. R
Wash Dress Mill	Chicago, Ill.
Handkerchief Mill	Zion, Ill.
Handkerchief Mill	Swatow, China.

3. Reduction of items manufactured. The items manufactured in the plants we now operate have been reduced from approximately 58,000 to approximately 32,000.

4. Reduction in the number of accounts sold. These have been reduced from approximately 27,000 to approximately 7,000.

5. Reduction in the number of employes. The employes of the Manufacturing Division are approximately 1600 less than the employes of the former wholesale division.

6. Establishment of a new form of organization. The wholesale division was organized into thirty-two departments. The Manufacturing Division is now organized into the following major units:
   (a) Merchandise Department.
   (b) Production Department.
   (c) Sales Department.
   (d) Financial Department.
   (e) Personnel Department.

7. The selection of a new executive personnel. It has been necessary to select new personnel for most of the major executive positions because of the change in the form of organization and nature of activities to be performed. Most of the executives appointed to major positions have been promoted from junior positions in the organization. Only a few major executives have been secured from outside the company.

8. Removal of the general offices of the Manufacturing Division from Chicago to New York, and the establishment of separate sales offices in the major commodity markets in New York City. We found this move desirable be-

cause the central market for the products of the Manufacturing Division is in New York City, and most of our plants are located on the eastern seaboard. The General Office of the Manufacturing Division is located at 200 Madison Avenue; the Sales Office for Bedding, Towels and related products is located in the center of the market for such products on Worth Street; the Sales Office for Piece Goods is located in the center of this market on Broadway, etc. We still maintain representative sales offices and display rooms in the Merchandise Mart, Chicago, and a considerable percentage of our salesmen operate out of this office.

9. Improvement in our production facilities. This has been secured by—
   (a) Relocating production activities so as to concentrate those of each type in one place and usually in one plant.
   (b) Rearrangement of plant layout.
   (c) Purchase of new equipment.

   We have established an Industrial Engineering Department as a sub-division of the production department to carry on intensive studies of manufacturing methods for the purpose of reducing costs.

10. Adoption of material changes in policies with reference to—
   (a) Style and design of products.
   (b) Type and number of customers.
   (c) Pricing.
   (d) Sales promotion.
   (e) Personnel.

   As a means of making these policies more effective, we have established—
   (a) A Bureau of Style and Design at 200 Madison Avenue, which concentrates on developing new products and improving the design and style of present products. It also establishes standards of quality which must be maintained in all products manufactured.
   (b) A quality Control Department which has a representative in each mill to inspect the products made to insure that the standards of quality established by the Bureau of Style and Design are maintained. We have also employed an independent testing laboratory to inspect all our products to insure maintenance of quality standards.

The net earnings of this division for the past two years have been as follows:

1935.....$1,496,519 (Loss)
1936.....$ 28,850 (Profit)

We have charged to the expenses of this Division during 1936 approximately $750,000 resulting from retiring allowances paid to employes, costs of moving general offices, costs of relocating of plant activities and other costs of reorganization. These items in the main are non-recurring.

REAL ESTATE DIVISION

The Real Estate Division consists of the following:

1. Merchandise Mart.
2. "Annex" Building.
3. Miscellaneous Real Estate.

(1) *Merchandise Mart*

During the past year the Merchandise Mart was faced with two major problems:

a. Its unrented space was increased by approximately 700,000 sq. ft. because of the space vacated by the wholesale division and retail units of the company. This vacated space represented approximately 22% of the total rentable area in the building.

b. It has been compelled to change its sales and operating program because the management decided it was necessary to seek a new type of clientele in order to operate profitably.

The Mart was intended primarily as a central market for jobbers and manufacturers. Our studies indicated it was not probable that the Mart could ever operate profitably if used to any large degree by jobbers. It was decided, therefore, to develop it as a central market for manufacturers. To accomplish this position it was necessary to finish one million square feet of floor space which have never been supplied with air ventilation, plastered walls or corridors and to incur a substantial amount of expense in remodeling space for tenants, moving tenants to new locations and securing tenants of the new type. The more difficult part of this readjustment has been made and the Mart has rented in excess of 600,000 sq. ft. of space during the year.

(2) *Annex Building*

A considerable part of the space of the Annex Building, which is located at Wabash and Washington Streets, is used to house the Store for Men. The remainder of its space is rented to tenants, consisting largely of professional men. We have no major problem in operating this building.

(3) *Miscellaneous Real Estate*

On December 31, 1935 the Company had sixteen properties which were not used in the operations of the business. Some of these consisted of warehouses and garages which we no longer need in our operations because of our re-organization program. One of these properties was sold during the year at a profit over its book value. The leases on two properties have expired and have not been renewed. The carrying charges on the remaining properties have been reduced substantially. It is the intention of the Company to dispose of the remainder of these properties as early as possible.

The net results of the Real Estate Division during the past two years have been as follows:

1935.....$318,141 (Loss)
1936.....$446,917 (Loss)

The increase in the losses of this division is due to the conditions existing in the Mart during the past year, which we have explained previously. There will be a substantial improvement in the results of this division during the current year.

CORPORATE OFFICE

The Corporate Office includes the following, and their assistants:

(a) Chairman.
(b) Treasurer.
(c) Secretary-Comptroller.

We are decreasing the activities of this office as we increase the responsibilities of the three operating divisions of the business; namely, the Retail Division, the Manufacturing Division, and the Real Estate Division.

PERSONNEL PROGRAM

We have given special attention during the past year to the development of a constructive program for providing proper training and promoting the welfare of our employes.

In our mills we have a 40-hour week for all employes, and we have maintained the minimum wage standards established under the N. R. A. During the year we made a substantial increase in the wages of all factory employes, and made adjustments in salaries of employes throughout the Manufacturing Division.

We recently adopted a 40-hour week for 90% of all employes in our Retail Division. The hours of the remaining 10% were adjusted materially or compensating benefits were given. We also established a minimum starting wage of $15.00 per week for all employes in this Division. The weekly wage of our selling employes has increased approximately $2.00 per week as compared with the preceding year. The average weekly wage of this group is more than 50% above the minimum. We have made substantial increases in the wages of the non-selling groups.

We have established personnel departments in both the Retail and Manufacturing Divisions under the supervision of capable executives, and these departments are concentrating on providing the maximum opportunities for all employes which are consistent with prudent management.

We have received excellent co-operation from the members of our organization in all ranks. We are grateful for their confidence and encouragement.

FINANCIAL REORGANIZATION

On December 31st, 1935, the company had outstanding the following long-time obligations:

4½% Debenture Gold Bonds, maturing serially until January 1, 1946	$ 8,599,500
5% First Mortgage Serial Gold Bonds, maturing serially until June 1, 1949	15,200,000
Total	$23,799,500

The interest cost during 1935 was $1,223,025.

As a result of payments made on these obligations and the refunding program carried out in December, the obligations now outstanding are as follows:

Serial Notes, maturing at the rate of $1,000,000 a year from 1937 to 1941, inclusive, average rate of interest—2½%	$ 5,000,000
First Mortgage Serial Bonds, maturing at the rate of $1,000,000 a year from 1942 to 1951, inclusive, interest—4%	10,000,000
First Mortgage Serial Bonds, maturing at the rate of $1,000,000 a year from 1952 to 1955, inclusive, interest 3% to Nov. 1, 1941; 4% thereafter	4,000,000
Total	$19,000,000

The interest cost on these securities in 1937 will be $633,250, or $590,000 less than the interest cost in 1935. It will be approximately $490,000 less than the interest cost in 1936. The yearly amortization has been reduced from $1,600,000 to $1,000,000.

On December 31, 1935, the company had the following stock outstanding:

Preferred—7% cumulative; $100 par value; callable at $120; 296,190 shares.....$29,619,000

Common—No par value; 1,384,722 shares.....$13,773,227

The dividends in arrears on preferred stock amounted to $7,775,000. These dividends had increased to $9,330,000 as of September 30, 1936. Dividends amounting to $3,406,185 on the preferred stock were paid in December.

As a result of the financial reorganization which the stockholders approved on December 26th, our capitalization is as follows:

Prior Preferred—7% cumulative; $100 par; callable at $120; 9,819 shares.....	$ 981,900
Preferred —6% cumulative convertible; $100 par; callable at $110; 286,371 shares.	28,637,100
Common stock—No par value; 1,623,351 shares....	14,966,371
Total	$44,585,371

As a result of our financial reorganization all dividends in arrears except $213,563.25 have been eliminated, and interest and preferred dividends, which constitute charges prior to earnings on Common Stock, have been reduced by approximately $775,000 a year.

RESERVE FOR LOSSES ON DISPOSITION OF PROPERTIES, ETC.

The Board of Directors established as of December 31, 1935 a reserve of $4,250,000 to cover losses on disposition of properties, adjustment of leases, etc. The balance of this reserve is $1,270,758.99. Losses which may be sustained in disposing of the three "B" stores and the remaining miscellaneous properties are chargeable to this reserve. It will be ample for this purpose.

SUMMARY OF FINANCIAL RESULTS

The financial results of 1936 by divisions as compared with 1935 are as follows:

	1936	1935
Retail Division	$4,836,738	$3,426,861
Manufacturing Division	28,850	*1,496,519**
Real Estate Division	*446,917**	*318,141**
Total	$4,418,671	$1,612,201
Financial Reorganization Expense	104,897	—
Total	$4,313,774	$1,612,201
Interest Paid	1,135,029	1,223,025
Net Profit or Loss before Federal and State Income Taxes	$3,178,745	$ 389,176
Reserve for Federal and State Income Taxes	300,000	190,000
Net Profit carried to Surplus	$2,878,745	$ 199,176

*Indicates Loss

The profits carried to Surplus are equal to the dividends on preferred stocks and 67 cents per share on the common stock.

The sales of the Company for the past two years have been as follows:

1935	$108,902,643
1936	104,204,936
Decrease	$ 4,697,707

If the sales of discontinued items and discontinued units are eliminated from both years, the sales of 1936 exceed the sales of 1935 by 17%.

CONCLUSION

The Board of Directors is grateful to all members of the organization and to the stockholders for their aid in achieving the results of the past year. We look forward with pleasure to our future co-operation in achieving greater results in which we shall all share.

By order of the Board of Directors,

JAMES O. McKINSEY, Chairman.

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AND SU

CONSOLIDATED BALANC

ASSETS

CURRENT ASSETS:			
Cash in banks and on hand, less treasurer's drafts		$ 8,159,787.29	
Bonds, tax warrants, etc., at cost (quoted market price $31,800)		33,296.50	
Receivables—			
Accounts and notes receivable from customers	$13,397,967.02		
Due from suppliers, rents receivable, etc	321,527.51		
	$13,719,494.53		
Less—Reserve for doubtful accounts and discounts	720,679.77	12,998,814.76	
Merchandise inventories, quantities and condition determined by the company, priced at the lower of cost or market—			
Manufacturing-division merchandise, including raw materials and work in process of $4,716,375	$11,862,181.69		
Retail-division merchandise	9,686,137.93	21,548,319.62	
TOTAL CURRENT ASSETS			$42,740,218.17
PREPAID EXPENSES:			
Prepaid insurance, rent, etc		$ 318,599.75	
Supply inventories		352,374.91	670,974.66
INVESTMENT SECURITIES, ETC.:			
Securities and cash deposited under construction agreements		$ 154,014.06	
Miscellaneous securities, receivables, etc		116,152.34	270,166.40

FIXED ASSETS:

Classification	Cost	Reserves for Depreciation and Amortization	Net	
Retail and manufacturing properties—				
Land	$ 904,436.66	$ —	$ 904,436.66	
Leaseholds (see Note 1)	1,369,405.83	220,974.35	1,148,431.48	
Buildings and building equipment—				
On owned land	8,097,720.52	5,435,909.18	2,661,811.34	
On leased land (see Note 1)	14,332,109.30	4,122,542.78	10,209,566.52	
Equipment	16,723,731.40	10,552,754.80	6,170,976.60	
Merchandise Mart (pledged under first-mortgage)—				
Air rights and land	2,907,461.85	—	2,907,461.85	
Building and equipment	26,580,669.06	3,928,723.37	22,651,945.69	
TOTAL FIXED ASSETS	$70,915,534.62	$24,260,904.48	$46,654,630.14	$46,654,630.14
GOODWILL, TRADE-MARKS, ETC.				1.00
				$90,335,990.37

NOTES:

(1) Rentals payable under long-term leases are at present approximately $1,150,000 per year.

(2) Contingent liabilities:

Under letters of credit $475,000.

Under a certain contract between the company and Mr. J. O. McKinsey, as amended January 5, 1937, it is agreed:

(a) That until January 10, 1939 Mr. McKinsey has the right to purchase all or any part of 50,000 shares of unissued common stock of the company at $10 per share, and that he will purchase at least 20,000 shares of such stock; as to all or any part of the remaining 30,000 shares thereof, and provided that he has purchased at least 10,000 shares, he may at his option receive a sum of money equal to the amount by which the market price exceeds $10 per share (Mr. McKinsey purchased 10,000 shares under the terms hereof on January 7, 1937).

(b) That Mr. McKinsey, after December 31, 1937 and within such time as is provided by his contract of employment, but in no event later than December 31, 1940, may purchase an additional 50,000 shares of unissued common stock at the book value thereof as of December 31, 1937, provided that said contract remains in effect on December 31, 1937.

LD & COMPANY
CORPORATION
IDIARIES

SHEET—DECEMBER 31, 1936

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable—			
Trade creditors	$ 3,933,680.76		
Customers' credit balances, merchandise certificates, etc.	419,640.36	$ 4,353,321.12	
Accrued salaries and wages		750,361.93	
Accrued real-estate and personal-property taxes, etc.		3,260,973.12	
Other accrued expenses		769,339.44	
Federal income taxes for current and prior years (subject to final determination by the Treasury Department)		634,247.13	
Current maturities of serial notes		1,000,000.00	
TOTAL CURRENT LIABILITIES			$10,768,242.74
FUNDED DEBT:			
Serial notes, maturing $500,000 semi-annually from June 19, 1937 to December 19, 1941, inclusive, interest at varying rates from 1½% to 3% (current maturities shown above)		$ 4,000,000.00	
First-mortgage serial bonds—			
Series one—4%, maturing $500,000 semi-annually from May 1, 1942 to November 1, 1951, inclusive	$10,000,000.00		
Series two—3% to November 1, 1941, and 4% thereafter, maturing $500,000 semi-annually from May 1, 1952 to November 1, 1955, inclusive	4,000,000.00	14,000,000.00	18,000,000.00
RESERVES:			
For loss on subleases		$ 575,832.37	
For possible loss on contemplated disposition of properties, etc.		1,270,758.99	1,846,591.36
CAPITAL STOCK AND SURPLUS (see Note 3):			
Prior preferred stock—			
Authorized 15,000 shares of $100 par value each; entitled to 7% cumulative dividends; redeemable at $120 per share and accrued dividends.			
Issued and outstanding 9,819 shares		$ 981,900.00	
6% cumulative preferred stock—			
Authorized 296,190 shares of $100 par value each; redeemable, if no prior preferred stock is outstanding, at $110 per share and accrued dividends; convertible until January 1, 1947 at the option of the holder at the rate of three shares of common stock for each share of preferred stock.			
Issued and outstanding 286,371 shares		28,637,100.00	
Common stock—			
Authorized 4,000,000 shares of no par value, of which 888,570 shares are reserved for conversion of preferred stock and 200,000 shares for sale to officers and employees.			
Issued 1,638,629 shares, at stated value (including 15,278 shares in treasury)		15,193,145.00	
Paid-in surplus		5,001,898.65	
Earned surplus, of which $226,773.97 is restricted by reason of purchase of treasury stock		10,133,886.59	
Capital stock and surplus before deducting treasury stock		$59,947,930.24	
Less—Treasury common stock—15,278 shares, at cost		226,773.97	59,721,156.27
			$90,335,990.37

NOTES (continued):

(3) The shares of capital stock shown above as "issued" include both common and 6% cumulative preferred shares issued in February, 1937 in exchange for the 286,371 shares of 7% preferred stock which had been deposited with the company at December 31, 1936 for exchange in accordance with the plan of reorganization.

Dividends in arrears on the 9,819 shares of prior preferred stock, representing the shares of 7% preferred stock not deposited for exchange at December 31, 1936, amounted at that date to $21.75 per share, or $213,563.25; no dividends may be paid on any other class of stock while any dividends on the prior preferred stock are in arrears. Dividends on the 6% cumulative preferred stock are cumulative from October 1, 1936, the first dividend being payable March 31, 1937.

Until March 1, 1937 the holders of the 7% preferred stock, not deposited for exchange, may exchange that stock and all rights pertaining thereto (including the right to dividends in arrears) for 6% cumulative preferred stock and common stock at the rate of one share of 6% cumulative preferred stock and five-sixths of one share of common stock for each share of the 7% preferred stock.

MARSHALL FIELD & COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT-AND-LOSS, SURPLUS AND RESERVES

For the Year Ended December 31, 1936

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

NET SALES TO CUSTOMERS		$104,204,936.63
RENTAL INCOME FROM TENANTS		1,930,755.94
TOTAL NET SALES AND RENTALS		$106,135,692.57
COST OF SALES AND OPERATING EXPENSES:		
Cost of sales and operating expenses exclusive of items listed below	$ 94,016,293.46	
Rentals paid under ground and building leases	1,668,557.15	
Provision for depreciation of buildings and equipment and amortization of leaseholds	2,377,467.60	
Real estate, personal property and franchise taxes, etc	2,101,701.62	
Occupation taxes	1,657,898.49	101,821,918.32
Net profit before interest and Federal and State income taxes		$ 4,313,774.25
INTEREST CHARGES AND FEDERAL AND STATE INCOME TAXES:		
Interest on funded debt (including amortization of bond discount)	$ 1,135,028.84	
Provision for Federal and State income taxes (no provision for surtax required)	300,000.00	1,435,028.84
Net profit for year		$ 2,878,745.41

CONSOLIDATED STATEMENT OF EARNED SURPLUS

BALANCE AT DECEMBER 31, 1935		$ 12,071,409.68
ADD—Net profit for current year		2,878,745.41
		$ 14,950,155.09
DEDUCT:		
Cash dividend of $11.50 per share paid on 7% preferred stock	$ 3,406,185.00	
Amount transferred to stated capital by authority of the Board of Directors as stated value ($5.00 per share) of 238,629 shares of common stock issued pursuant to plan of reorganization declared in effect by the Board of Directors on December 26, 1936	1,193,145.00	
Note: Under the plan of reorganization 286,371 shares of new 6% cumulative preferred stock and 238,629 shares of common stock were exchanged for 286,371 shares of 7% preferred stock and all rights pertaining thereto, including dividends in arrears amounting to $20.00 per share as of September 30, 1936. See Note 3 on accompanying balance sheet.		
Premium and unamortized discount on 4½% debenture gold bonds retired	216,938.50	4,816,268.50
BALANCE AT DECEMBER 31, 1936		$ 10,133,886.59

CONSOLIDATED STATEMENT OF PAID-IN SURPLUS

No changes were recorded during the year in this account.

CONSOLIDATED RESERVE FOR POSSIBLE LOSS ON CONTEMPLATED DISPOSITION OF PROPERTIES, ETC.

BALANCE AT DECEMBER 31, 1935		$ 4,250,000.00
DEDUCT:		
Losses sustained on sale of leaseholds and equipment of the Davis Store and on sale or other disposition of sundry manufacturing properties and Class B retail stores, etc	$ 2,372,237.68	
Amount transferred to separate reserve for estimated losses to be sustained under sub-leases entered into in connection with sale or disposition of properties as above	607,003.33	2,979,241.01
BALANCE AT DECEMBER 31, 1936		$ 1,270,758.99

CONSOLIDATED RESERVE FOR LOSS ON SUB-LEASES

Amount transferred from reserve for possible loss on contemplated disposition of properties, as above	$ 607,003.33
DEDUCT—Excess of rentals, taxes and insurance paid on sub-leased properties over rentals received	31,170.96
BALANCE AT DECEMBER 31, 1936	$ 575,832.37

ARTHUR ANDERSEN & CO.
ACCOUNTANTS AND AUDITORS

135 SOUTH LA SALLE STREET
CHICAGO

To the Board of Directors,
Marshall Field & Company:

We have made an examination of the consolidated balance sheet of MARSHALL FIELD & COMPANY (an Illinois corporation) AND SUBSIDIARY COMPANIES as at December 31, 1936, and of the statements of consolidated profit and loss, surplus and reserves for the year ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence, and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of profit and loss, surplus and reserves fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at December 31, 1936, and the results of their operations for the year ended that date.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 15, 1937.